AgriBrief Bulletin

ANDERSONS
the FARM business CONSULTANTS

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POLICY & BUSINESS

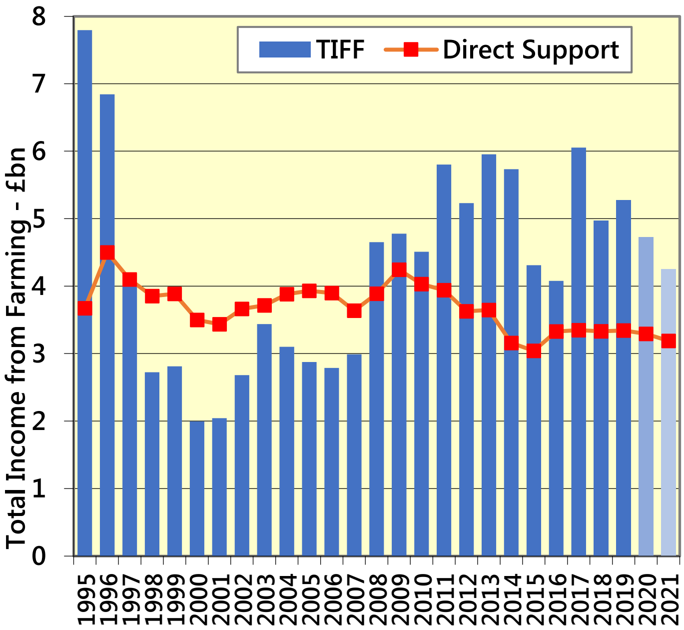
Farm Incomes Rise in 2019

TIFF Figures

The profit of UK farming recovered in 2019 after the drought-affected 2018 year. The latest estimates for Total Income from Farming (TIFF) released by Defra show an increase of 6% in real terms, leaving profit for the industry at £5,278m.

TIFF is the total profit from all UK farming businesses for the calendar year. It shows the return to all entrepreneurs for their management, labour and capital invested. Readers with good memories may recall that, despite the latest figures being called the ‘first estimate’, a figure was published in December (see our article https://abcbooks.co.uk/farm-profits-up-for-2019/). This was an initial forecast provided for the EU and at the time 2019 TIFF was forecast to rise 14% in real terms. *This always looked a little high to us – our estimate at the time was 6% which has turned out close to the mark.*

The main reason for the rise in profitability was an increase in arable output. The overall sales of arable crops rose by 6%, with wheat leading the way with a 16% increase in output value. This was largely a ‘bounce-back’ from the lows of 2018. Overall livestock output was close to year-earlier levels, as were costs. The chart below shows the historic TIFF figures, plus our forecast for the current 2020 year and 2021.



Whilst we are only partway through the 2020 year it seems highly likely that the lack of autumn plantings last *year will affect output from harvest 2020. There are also likely to be some Covid-19 effects such as reduced beef prices and dairy farm incomes affected for certain producers. Whilst this will be offset by lower costs, we currently forecast a decline in farm profitability for the year of 10%. Towards the end of the year there may be market disruption as the Transition Period comes to an end – depending on whether a trade deal has been concluded with the EU or not. Some of these trade effects may well linger into 2021 which is why there is a (tentative) forecast for another decline in TIFF.*

Further details on the aggregate agricultural accounts can be seen at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/883681/agricaccounts-tiffstatsnotice-07may20.pdf. A further update to the statistics is due in November.

Productivity

Alongside the TIFF figures, Defra also published estimates of Total Factor Productivity (TFP) for 2019. This measures how well inputs are converted into outputs and thus gives an indication of the efficiency and competitiveness of the farming industry. *It is one of the measures that Defra looks at closely, as it tries to improve the performance of UK agriculture.*

The figures for 2019 show a significant uptick with TFP increasing by 4% between 2018 and 2019. This was largely caused by an increase in the volume of outputs (up by 3.8%) with a small decline in the amount of inputs used (-0.2%).

Although this is encouraging, any one year's figures need to be viewed with some caution – the series tends to fluctuate on an annual basis, and it is the trend over a longer period that is more important. UK agriculture shows an improvement in productivity, but the rate of increase is slow. Since the figures began in 1973 the annual average increase is around 1%. From 2000 to 2019 is has been at a lower level of 0.7% per year. It is also likely that TFP will fall in 2020 following the difficult year for arable farmers. Getting TFP, and other productivity measures, moving upwards more strongly is one of the key policy goals of Government over the next few years. For more details see – https://www.gov.uk/government/statistics/total-factor-productivity-of-the-agricultural-industry .

Commons Passes Ag Bill

The Agriculture Bill passed its remaining stages in the House of Commons on 13th May. It made a small piece of legislative history as it was the first Bill to be voted on electronically (remotely). Apparently, some MPs struggled with the technology as members of the Government (notably, the Chancellor Rishi Sunak) managed to vote against their own legislation.

In any event, there was a minor rebellion by some Conservative MPs as they attempted to get an amendment included in the legislation that would have made imports of food meet UK standards on animal welfare, the environment and food safety. It was tabled by Tiverton and Honiton MP Neil Parish, who is also chairman of the House of Commons Environment, Food and Rural Affairs Committee. The amendment was defeated by 328 votes to 277 and the Bill itself was finally passing by 360 votes to 211.

Ministers say the issue of protecting food standards in post-Brexit trade deals will be dealt with in the upcoming Trade Bill, and that the Agriculture Bill was not the correct place for it. *However, there is a fear that the Government doesn't want anything written into legislation that will tie-its-hands when it comes to negotiating a deal and that cast-iron guarantees on standards may not be seen in the final Trade Bill.*

The Agriculture Bill now passes to the House of Lords. The Lords is not yet set up for electronic voting (their Lordships may have even more problems with using the system…). There will therefore be a delay before the Bill completes its legislative journey. The Lords may try to insert an amendment on food standards similar to that which failed in the Commons. It is still expected to receive Royal Assent in the summer.

Agri Food Prospects after Covid

At one point in May, a toilet roll was worth more than a barrel of crude oil and the Bank of England sold gilts with a negative yield to willing buyers (which has never happened before). We have all lived through several decades this year already! As the lockdown begins to ease, this article looks at some of the longer-term effects of the outbreak on the agri-food sector.

Waste and the Environment

In the short term it appears from The Grocer and other sources that food waste in the house has fallen by as much as a quarter. In the case of dairy, this may be more than the total decrease in consumption, suggesting the decline in demand could be just because we are being more careful with food. It is an expensive improvement for the food and farming industry, but waste reduction is a good thing; a considerable achievement whilst the country spends two months thinking more carefully about food. The same is apparently true for other sectors such as bread. Whether this will last remains to be seen (we have our doubts). With open-air markets reopening this month, other elements of the food chain are starting re-appear and ease the supply through the supermarkets. Incidentally, the reduction of waste has been seen in other non-food sectors too and of course consumption is down of many resources. It would be an environmental boon if society could learn at least a few small lessons from lock-down of constraining unnecessary consumption.

Economics

The economic downturn will be the longest lasting part of the pandemic, currently underestimated by the stock market. Agriculture and food supply will be affected (albeit less than some non-essential industry sectors). But economic issues including currency, trade facilitation, tax and capital will have a greater and more lasting impact on food supply than the possible shortening of supply chains and introduction of robotics that some have suggested. Businesses will be expected to share the burden of paying for what has happened, and that includes many farmers and rural entrepreneurs. However, in times of recession it is good to be part of an industry that supplies a commodity that is necessary and its consumption doesn't change substantially depending on wealth. Agriculture does relatively well in recessions.

Around a third of the economy was closed down, with a view to reopening parts of it gradually at Government's choosing. Farming carried on. Government protection schemes cannot last for ever and when they end, we can insolvencies and business failures. The Financial Crisis of 2007-08 caused a 5% fall in GDP and it took 5 years to return to 2007 economic levels. This March alone saw our economy shrink by that much. The Spanish Flu in 1918-19 led to a 27% reduction in world GDP. The Office of Budgetary Responsibility predicts a record 35% reduction in GDP for the second quarter of 2020, a 300-year record. We will also inevitably have to start paying for the extraordinary debt the nation has incurred since January, certainly the highest since the last World War. There are four ways of clearing debt; Default, Economic Growth, Taxation, and Inflation;

- ***Default:*** No country will opt willingly to default on its debt as it is good for nobody.
- ***Growth:*** Rapid growth will help get people back into work. It will require softer business regulations and free market encouragement. For instance, brewers currently require licences to deliver beer to consumers rather than pubs which prevented many from operating in March and April. Small business flexibility is required. Growth of the manufacturing sector will support greater employment and will also build the secondary service sector. Farming could help here. Sterling might prove too strong and fall in value here to encourage trade and exports. Farming would benefit from a weaker Pound.
- ***Taxation:*** Tax increases on the 'haves' are inevitable. Farmers are generally in this cohort, by assets at least. Those with income may bear the brunt of higher taxes but also those with property, or other assets could face a larger tax burden - i.e. changes in capital taxes.
- ***Inflation:*** The only winner from inflation is the borrower. It erodes debt as fast as assets. This will not help the landowner, but the farmer, as manufacturer of commodities is owning one of the most inflation-proof assets. A weak currency, massive quantitative easing and record low Base Rates (especially when oil prices rise) are inflationary. High unemployment, reduced consumption and spare economic capacity are deflationary.

Adam Smith pointed out that capital in business flows in two directions, to labour or the owners. Government is looking after the worker but will not support the capitalists; they will lose value in their shares when the dividends are cancelled or profits fall. Those with capital will suffer from inflation when it goes up and will pay more in tax.

Government policy will presumably refocus on the big economic issues for a while. The budget for farm support has probably travelled far enough to survive intact (at least until 2024). Infrastructure plans may have to be scaled-back. Those that are already well-progressed (like HS2) may well survive, but new initiatives may be limited.

Trade

An upsurge of protectionism is presumably inevitable. It was already happening with the US-Chinese spat. But more locally, irrational protective actions are taking place defending food supplies in a local store for locals only. We should remember that, whilst it is good to provide business to local firms, becoming self-sufficient would in fact lower our food security. The optimal food security needs to be calculated and the market allowed to achieve it and trade should be embraced. Many supply chains will look to reduce the linkages. Whilst for many it might mean buying more UK food, for others, buying from a single supplier from far away is a more robust supply chain than lots of smaller local suppliers.

Opportunities

Innovative people have been using lockdown time being thoughtful and creative. Many more patents have been registered than usual since January. This might be because there is time on people's hands, possibly because the world has suddenly changed, and new ideas are required. Change creates threats, and opportunity. Very big parts of the economy were already in the process of radical transformation, and this epidemic will accelerate this.

The world will endeavour to recover whilst undergoing the transition to non-fossil fuels. This is one of the big issues of the 2020's. The virus has helped; whilst in lockdown, fossil fuels have accounted for less than 15% of electricity generation.

Covid Business Support

The Government has added to the suite of schemes available to help businesses cope with the effects of the Coronavirus outbreak.

Following criticism of the ***Coronavirus Business Interruption Loan Scheme*** (CBILS) a new '***Bounce Back Loan Scheme***' (BBLS) opened on the 4th May. Unlike CBILS, the Government will guarantee 100% of the loan under BBLS, as opposed to 80%. This means that the banks providing the loans have a much lower requirement to undertake due-diligence on the application. *CBILS had been criticised due to the time it was taking to process applications.* Under BBLS it is envisaged that funds should be in a business's bank account 'within a day or two' of application.

Loans under BBLS can be between £2,000 and £50,000, with the Government paying all the interest for the first 12 months. The amount of the loan must be no more than a quarter of annual turnover and the business must not have been an 'undertaking in difficulty' on the 31st December 2019. Firms that have already taken a loan under CBILS are not eligible. There has also been some streamlining of the original CBILS scheme. This has a higher lending threshold of £5m. Firms will now be assessed on their viability before the Covid-19 outbreak and there will be no requirement for forward-looking business plans and budgets.

Of interest to the many self-employed people working in agriculture and the allied trades will be the progress of the ***Self-Employed Income Support Scheme*** (SEISS). This is opening earlier than expected. The online portal through which claims can be made became available from 13th May. Payments should commence from the 25th May (ahead of the end-June deadline originally outlined). HMRC is contacting self-employed people through e-mail, texts and post outlining what they need to do. Applications will open in tranches based on the Unique Taxpayer Reference (UTR) number. There is an online eligibility checker at – https://www.tax.service.gov.uk/self-employment-support/enter-unique-taxpayer-reference

Lastly, the Covid furlough scheme has been extended to the end of October. The scheme, officially called the ***Coronavirus Job Retention Scheme***, was due to finish at the end of June. It will now continue on its present terms (80% of wages paid up to a maximum of £2,500 per month) until the end of July. From the start of August, the scheme will alter. Details of the changes will be published by the end of the month, but the scheme will become more flexible – for example allowing employees to return to work on a part time basis. It is also expected that employers will be expected to shoulder a larger proportion of the cost of the scheme. At present, it is costing the Government around £10bn a month.

New UK Global Tariff Regime

The UK farming industry will continue to receive protection from cheaper global imports. This is the result of the new tariff regime announced on the 19th May and represents somewhat of a U-turn from earlier Government policy.

The UK Government has announced its new Most-Favoured Nation (MFN) tariff regime, the UK Global Tariff (UKGT). This sets the tariffs that have to be paid on imports entering the UK after the end of the Transition Period when it will replace the EU Common External Tariff (CET). If there is no trade deal in place with the EU by the end of the Transition, then these tariffs will also apply to imports from the EU as from 1st January 2021.

The Government claims that the new tariff regime is tailored to the needs of the UK economy and that the UKGT will be simpler and easier to use in comparison with the EU CET. Nearly 6,000 tariff lines have been streamlined or simplified, which is claimed will reduce the administrative burden on business and 'nuisance' tariffs (tariffs under 2%) have been removed.

From an agri-food perspective, as the table below illustrates, most of the tariffs under the CET have been maintained at pretty much the same levels, but converted from Euro into Sterling. In most cases, the currency conversion rate is €1 = £0.83, but there are some variations due to rounding and simplifications. *Effectively, the protection around the UK market will be kept at the same level as it was round the EU Single Market.*

Tariffs for products such as beef carcasses continue to have both a percentage (12.0%) and a fixed component (£147.00 per 100kg). Whilst still complex on the face of it, if a percentage-only tariff was applied, cheaper imports would have a lower tariff in monetary terms.

For cereals, the tariffs for feed wheat (changed from €95 per tonne to £79 per tonne) and barley (€93 to £77) remain largely the same and have only changed due to currency conversion. Maize grain tariffs have been reduced to zero (from €10.40 per tonne). *This might provide extra competition to UK-produced feed grains, notably feed barley.* For wheat flour, the tariff has changed from €172 per tonne to £143. The tariffs for maize, barley and oat flour have been reduced to zero but these are marginal products.

Across fruit and vegetables, the main changes are simplifications and rounding. For instance, the tariff for potatoes has reduced from 14.4% to 14.0%. However, products such as oranges have seen more significant changes (e.g. tariff for fresh oranges reduced from 16% to 12%), thus making it cheaper for businesses to import such products which are not normally produced in the UK.

Another noteworthy point is that the UK plans to discontinue the EU's Meursing table which creates thousands of tariff variations for products such as biscuits, pizzas, confectionary and spreads which complicates the calculation of tariffs for these products. Further information is available via: https://www.gov.uk/guidance/uk-tariffs-from-1-january-2021

UK Global Trade Tariffs – source Dept for International Trade

% or €/£ per tonne	EU Common External Tariff	**UK Global Trade Tariff**	*Reason for Change*
Feed Wheat	€95	**£79**	*currency*
Feed Barley	€93	**£77**	*currency*
Oilseeds	none	**none**	*n/a*
Maize	€10.4	**£0**	*liberalisation*
Sugar (raw cane)	€339	**£280**	*currency*
Butter	€1,896	**£1,580**	*currency*
Cheese (Cheddar)	€1,671	**£1,390**	*currency*
Beef Carcases①	12.8%+€1,768	**12%+£1,470**	*currency*
Lamb Carcases①	12.8%+€1,713	**12%+£1,430**	*currency*
Pig Carcases①	€536	**£440**	*currency*
Chickens①	€262	**£210**	*currency*
Potatoes	14.4%	**14%**	*simplification*
Oranges	12%/16%	**12%**	*simplification*

① fresh/chilled

Overall, the UKGT schedule differs substantially from the big reductions initially proposed in March 2019. On the face of it, this reduces the scope for the competitive pressure to be exerted on farmers, post-Transition. Simultaneously, it will also serve to focus minds within the EU as many of the tariffs will be prohibitive for EU farmers under a No Trade Deal scenario.

As with all matters pertaining to trade, the devil will be in the detail. Its announcement did not cover Tariff Rate Quotas (TRQs) – these allow specified volumes of agricultural commodities to be imported either tariff-free or at much lower tariff levels. This announcement is due to be made later in the year. Any new TRQs that the UK introduces on an MFN basis will have the potential to cause significant competitive pressures. For instance, if the UK Government decides to introduce new TRQs for beef similar to the 230,000 tonnes proposed in March 2019, substantial volumes would enter into the UK tariff-free. At least the UKGT schedule has given some clarity to businesses on the tariff levels to expect post-Transition, and potentially under a No-Trade Deal Brexit.

Other Trade News

Talks on a Free Trade Agreement (FTA) between the US and the UK began on the 5th May. It is planned to have a'round' of talks every six weeks, covering specific areas. The first round will encompass trade in goods and services, digital trade, two-way investment and support for small and medium-sized businesses. Both sides are looking for a quick deal, but there are likely to be sticking-points in the negotiations – not least over standards and especially so in the area of agri-food trade (e.g. the infamous chlorinated chicken). *The UK Government hopes that progress in talks with the US will put pressure on the EU to agree a comprehensive FTA with the UK.*

Japan is also one of the key target countries that the UK wants to reach a post-Brexit trade deal with. The Government has recently published its negotiating objectives for these talks, see – https://www.gov.uk/government/news/liz-truss-kick-starts-trade-negotiations-with-japan. Japan is the third largest economy in the world (fourth if the EU is counted as one) and the 11th largest trading partner of the UK. *In terms of agri-food, any deal with Japan is likely to be far less important that those with the EU or US for example, being so much further away. However, it is still worth watching for potential impacts.*

Brexit Update

Aside from details of the UK's new Global Tariff regime published on 19th May (see above), there have been other notable recent developments in the Brexit negotiations. These relate to the publication of the UK Government's draft legal text for a UK-EU Comprehensive Free-Trade Agreement (CFTA) and its proposals to implement the Northern Ireland (NI)-Ireland (IRL) Protocol.

Draft UK-EU Comprehensive Free Trade Agreement (CFTA)

This draft legal text was published on 19th May and forms a key part of the UK's approach to the future relationship with the EU. It elaborates on the objectives of the 'Canada-style' trading relationship which the Government set-out in February. David Frost (UK's Chief Negotiator) has insisted that the proposals approximate very closely what the EU has already agreed with Canada and Japan.

However, the EU is insisting that to get the kind of deal which the UK is seeking, it needs to agree to 'level playing-field' provisions designed to stop the UK from undercutting the EU's rules on State Aid, tax, labour and environmental regulation. According to trade experts, the UK's ambitions in areas such as the mutual recognition of qualifications (e.g. lawyers) goes beyond what is contained in other FTAs, including Canada and Japan. It is seen by Brussels as an attempt to 'cherry-pick' aspects of its current access to the Single Market, and the EU is unlikely to offer concessions on this without some commitments to its level playing-field requirements.

Other areas of friction relate to the EU's demands for access to the UK's fishing waters, Britain's objections to any role for the European Court of Justice in overseeing any eventual deal and arrangements for the implementation of the NI-IRL Protocol (see below).

The draft legal text (292 pages) contains limited (six) references to agriculture and these primarily refer to the WTO Agreement on Agriculture. The legal text is accessible via; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/886010/DRAFT_UK-EU_Comprehensive_Free_Trade_Agreement.pdf

Whilst it is useful to get sight of the UK's proposed legal text, this should be very much seen as a negotiating position. The situation is likely to evolve significantly as discussions progress with the EU in the coming weeks.

NI-IRL Protocol

On 20th May, the UK Government set-out its proposed approach on implementing NI-IRL Protocol. A purpose of this document is on protecting Northern Ireland's place within the UK Customs Territory and to minimise the scope for friction on GB-NI trade. It plans to do this by;

- ***Unfettered access on trade going from NI to GB:*** meaning that trade should continue as it does now, with no additional processes, paperwork or restrictions on such trade. *The EU is unlikely to have problems with this as it is an internal UK matter. However, one area where there may be a potential issues is the EU foresees NI businesses having to implement its Customs Code and, as a result, exit summary declarations would be required on shipments leaving NI to the rest of the UK or other non-EU countries.*
- ***Trade going from GB to NI:*** no tariffs will be levied on such trade if the goods remain within the UK Customs Territory (i.e. stays in NI). Only goods ultimately entering Ireland or the Rest of the EU, or have a high risk of doing so would face tariffs. *Here, the EU takes a very different view and sees all goods entering into NI from GB as 'at risk' of moving South. It believes that where goods have tariff differentials between the UK and the EU, there is a significant risk of smuggling. It is clear that this will be one of the main areas of contention when it comes to discussions within the Joint Committee that will oversee the implementation of the Protocol.*
- ***No new customs infrastructure in Northern Ireland:*** whilst acknowledging that there would be some additional processes and documentation for goods, particularly agri-food, arriving into NI, these would be 'de-dramatised' as much as possible and no new physical customs infrastructure would be built. That said, there would be some expansion of additional entry points for agri-food goods to provide for proportionate controls. *UK Government's proposals appear to give it some wriggle-room to expand existing infrastructure to manage arrangements. There are still many challenges here concerning agri-food as these will be the most arduous controls to manage.*
- ***Northern Ireland benefits from UK trade deals with third countries:*** sets out the ambition for NI businesses to benefit from lower tariffs associated with any such deals, just as GB businesses would. *What NI businesses can eventually avail of will also be contingent on the specific arrangements that third countries who strike FTAs with the UK are comfortable with.*

Further detail on the UK's approach is available via: https://www.gov.uk/government/publications/the-uks-approach-to-the-northern-ireland-protocol

Overall, there is a sense that momentum is building ahead of the next European Council (18-19th June). Any decision to extend the Transition Period beyond December 2020 (decision is due by 30th June) is scheduled to be made at this meeting, or a proposal to provide an alternative date extending the negotiating period until, say, October. Whilst the UK is adamant that it will not extend the Transition beyond 31st December, influential voices are calling for an extended implementation period of 6-9 months beyond June 2020. They claim that this would allow businesses to make the legal changes necessary to implement what has been agreed during the negotiating phase (taking place *during the transition). Whether all of this can be agreed and implemented within an additional 6-9 months remains a tall order, but any additional time would be welcomed by exporting or importing businesses currently having to grapple with the Covid crisis.*

In Brief

Agri-Environment Payments

The RPA has confirmed bridging payments will be made for outstanding 2019 agri-environment claims. Those who have not yet received their 2019 Countryside Stewardship or Entry Level Stewardship payment will be paid 75% of the estimated value of their claim. They will be made by the end of May. The RPA has said it is 'committed to driving up performance on the Countryside Stewardship and Environmental Stewardship schemes'. *Payment delays are one of the reasons highlighted by land managers for not entering the schemes.* The RPA has also announced it will not be making any BPS 2019 bridging loans as 99% of claims have already been made and it is working quickly to resolve any outstanding.

Welsh Future Farm Support

The Welsh Government has published the responses to its consultation on future farm support undertaken last year. There were over 3,000 submissions to the 'Sustainable Farming and our Land' consultation. The summary of these can be found at – https://gov.wales/written-statement-sustainable-farming-and-our-land-summary-responses. The Government concludes that there is 'broad support for the Sustainable Land Management (SLM) framework'. As previously written, the administration is taking forward the design of its scheme through a 'co-design' process with the farming sector.

Rates Revaluation Postponed

The revaluation of properties in England for Business Rates, due to occur in 2021, has been postponed. The Government had originally brought the revaluation process forward a year from its proposed 2022 date in order to base Business Rates on a more up-to-date set of property values. Due to Covid-19 the exercise has been postponed indefinitely. For details see – https://www.gov.uk/government/news/business-rates-revaluation-postponed.

Renewable Heat

The Government has confirmed that the domestic Renewable Heat Incentive (RHI) scheme will remain open until 31st March 2022. The non-domestic element will close on the 31st March 2021. The Government has issued a consultation (with a closing date of 7th July) on future support for low-carbon heating. This can be found at https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat.

Oxford Farming Conference Cancelled

The 2021 Oxford Farming Conference has been cancelled. Like many other gatherings, the OFC21 has fallen foul of the Covid-19 outbreak. Although many months away, the organisers felt that they could not take the financial risk of booking venues with the threat that the conference could not go ahead. There will be an online OFC instead on the 7th January 2021.

CAP Roll-Over

The EU has agreed to roll-over the current Common Agricultural Policy until a new system is agreed. Negotiations on CAP reform and the linked issue of the entire EU budget have been both delayed and complicated by the Covid-19 outbreak. The new legislation states that the existing rules (e.g. BPS) will continue for the 2021 year if an agreement on reform has not been reached by 30th October 2020. There is also provision for the current regime to be extended into 2022 if required as well.

EU Farm Strategies

The EU has published two strategies that are likely to have a long-term effect on its farming industry. The 'Farm to Fork' (F2F) and Biodiversity Strategies are core elements of the European Green Deal and set out the EU's long-term goals and direction of travel for the agri-food sector for the next 10 years. In the F2F Action Plan, the EU's Executive has pledged to cut the overall use of chemical pesticides and the use of more hazardous pesticides by 50% by 2030. It is also committed to reduce nutrient losses by 50%, ensuring there is no deterioration in soil fertility whilst reducing the use of fertilisers by at least 20% by the end of the decade. Pledges also include the reduction of EU sales of anti-microbials for farmed animals and fish by 50% by 2030 and to halve the food waste per person at both retail and consumer level over the same timeline. Furthermore, an Action Plan for Organic Farming is due to be published later this year, with the goal of reaching 25% of the EU's agriculture land being farmed organically by 2030. Acknowledging the current Covid-19 pandemic, the plan underlines 'the importance of a robust and resilient food system that functions in all circumstances…'. Through the EU Biodiversity Strategy for 2030 'Bringing nature back into our lives' the Commission has pledged to transform at least 30% of Europe's land and seas into effectively-managed protected areas. One of the key commitments under the strategy is to introduce legally binding nature restoration targets in 2021, with the aim, by the end of the decade to have 'significant areas of degraded and carbon-rich ecosystems restored'.

Arable

Arable Roundup

Everything grain marketing is focused on new crop by this time of the year, even the remains of the old crop respond to new crop market fundamentals. So prices are moving based on the reports of crop development and of rain or sun. Hence, the markets at this time of year fluctuate far more than the well-being of the developing crop in the ground. This volatility is of less importance in the spring as farmer selling tends to slow, as has been the case this year too. Sales are even slower than normal, as a result of farmers trying to assess what they might have to sell. Inevitably, for many this will be less come September than usual.

The US Department of Agriculture (USDA) in its May bulletin released figures showing ample wheat stocks, sending wheat prices down. But the growing conditions around the world are not great at the moment. The Russian new crop is suffering more than the UK from dry conditions and the crop expectation there has been reduced several times by the local analysts. Across the EU, similarly, crop prospects are being trimmed back by dry soils from the UK across the Northern European belt. At the time of writing. the outlook remains warm and dry. With the UK wheat crop almost inevitably less than 10 million tonnes, and possibly considerably less, the London wheat futures have been gradually rising. This has also been supported by a weaker currency.

Maize demand is starting to rise again with the resumption of an ethanol market in USA. The same is happening for oilseed rape in the European markets with biodiesel demand restarting again. This, coupled with the anticipation of oil guzzling restaurants reopening soon in the UK and Europe, has led to higher oilseed rape prices. Coupled with a very low OSR stock level in Europe gave the market a £10 per tonne boost.

The same factor has been positive for malting barley; hints that physically distanced bars might be able to reopen soon have supported the malting sector. Furthermore, the dry soil conditions have pushed down the yield expectations for the large area of spring barley, trimming the potential total crop size. Again, this holds true for Europe going right across the Black Sea regions. Rain is needed badly in the whole of Europe.

The pulse market has reached its high point, having risen to levels that don't calculate to export to buying destinations. Trading is still quiet as Ramadan continues, but is in its last week. There might be some new crop business thereafter, but probably only when prices come down slightly.

The release of the UK Government's import tariff schedule this month explains the charges exporters will have to pay to send grain to the UK after the departure of the UK from the EU-Brexit Transition Period on 1 January 2021 (see article above). The tariffs to import wheat and barley from third countries will be £79 per tonne and £77 per tonne respectively. We normally export these crops but this year this may not be the case due to the low crop size. Therefore, these tariffs might have a market effect. However, the import tariff for maize will be zero, suggesting maize can flood in from France and the Americas easily; maize is likely to be the feed-grain import of choice. Furthermore, the high specification wheat will also not have a high tariff, suggesting the milling wheat demand will be sufficiently met.

Dairy & Livestock

Dairy Farm Covid Support

Following intense lobbying, the Government has announced further support for dairy farmers affected by the Covid-19 outbreak. Businesses which have seen their income drop by more than 25% during April and May will be able to claim under the scheme. The support will be equal to 70% of the lost income for these months, up to a maximum of £10,000.

More details on the scheme, including how to apply, are still awaited. The Government announcement can be seen here – https://www.gov.uk/government/news/new-funding-to-support-dairy-farmers-through-coronavirus.

The Welsh Government has also announced a scheme almost identical to the one outlined for England. Further details of the scheme including how to apply are expected shortly. *It will now be seen whether Scotland also introduces such a scheme.*

Dairy Roundup

Markets

In the latest Global Dairy Trade event on 19th May the average price index rose by 1% to $2,907 per tonne. This is the first increase since the end of January, apart from a 1.2% in early April. It was mainly due to a 6.7% increase in the SMP price. WMP, butter and cheddar all saw losses of 0.5%, 1.9% and 6% respectively.

Closer to home, reports suggest markets are improving as the lockdown begins to ease on the Continent and, to a lesser extent, at home. Increasing demand and the opening of Private Storage Aid (PSA) (see below) has seen the price of butter increase, this in turn has supported the cream price. The spot milk price has also improved to about 18-20ppl as producers manage production and some areas of the country are reportedly now past the spring peak.

Farmgate Prices

Many processors have held their prices as they watch to see which way markets will go. This includes Muller who, as reported last month, had to quickly rescind the price rise it had announced for May when Covid struck. The processor will also be holding the same price for June. Other processors have also kept their prices unchanged for June include; Barbers, Saputo, South Caernarfon Creameries, Belton Farm (Cheese) and First Milk (Cheese). There has inevitably been some price reductions with Glanbia Cheese and Meadow Foods suppliers' in Cumbria and South Wales receiving a 2ppl reduction as from 1st May. Other Meadow Foods suppliers received a 1ppl price cut from the beginning of May. Even M&S aligned suppliers will receive a 0.61ppl reduction from 1st June, although its price will still be 31.72ppl and highlights the range of current farmgate prices. The difference between the top aligned and lowest non-aligned contracts is now nearly 10ppl.

Production

Latest figures from the AHDB, show for the week ending 9th May, GB daily milk deliveries were averaging 37.01m litres; up 0.4% on the previous week. But overall production is now about 1.8% behind that of last year. The actions by some farmers to reduce production has prevented the need for milk to be dumped as witnessed at the beginning of April plus the supply chains are now more organised with sufficient milk reaching the consumers. Reports suggest production was cut by 23m litres during April, helping to keep within processing capacity and avoid excess milk having to be disposed of on farm. While this may have given the industry some breathing space, these farmers will have seen a financial impact on themselves as a result of the cut-back.

Private Storage Aid (PSA)

The EU PSA scheme, which provides financial support for placing dairy products into storage, opened for applications on 7th May. As the UK is still in the Transition Period it is allowed to use the scheme. Limits have been put on the amount of cheese each member state can put into storage. The UK along with Ireland, Italy and Sweden have all used their allocation for cheese already; the UK used its' within a week.

Dairy Campaign

The AHDB, Dairy UK, Defra and the other devolved farming administrations have all come together to fund a £1m dairy industry marketing campaign. The 'Milk Your Moments' initiative aims to increase consumption of milk and other dairy products by encouraging consumers to celebrate and record moments we used to take for granted before Coronarvirus – such as simply having a cup of tea or coffee with friends. These can then be shared across all the digital platforms and social media. Consumers will also be prompted to visit the 'Milk Your Moments' website which will generate a random 'moment of inspiration' and for each one will donate £1, to the mental health charity 'Mind'.

Pig Meat Market

The GB finished pig has not yet been severely affected by the Covid 19 pandemic. However, with values on the continent falling sharply can this be maintained

GB prices have remained firm through May with the EU-spec SPP being 164.34ppkg in the week ending 16th. This is around 20p higher than the same point last year and 25p above the five-year average. Reports suggest demand remains steady. Some processors are reporting disruptions due to Covid 19 which could affect processing capabilities in the short term. Estimated slaughter numbers are 15% down compared to the same week in 2019 and 11% less than the five-year average. Whilst this helps stem any over-supply issues in the short-term, finished pigs may currently be held back – storing up issues for the future. It is also reported that that there are plentiful supplies in cold storage. *Whilst the GB market is finely poised, it does seem that supply and demand are well balanced.*

The picture is quite different in the rest of Europe, with some of the main producers of pig meat finding the market over the last few weeks increasingly challenging as the lockdown measures affect demand. Germany, Denmark, the Netherlands, Spain, Italy and Poland have all seen their pig meat prices fall sharply during the pandemic. In Ireland, just two sites are responsible for more than half of the pig slaughter. If a Covid 19 outbreak occurred in either of these sites, affecting processing capability, there would be a significant supply chain issue. The 'lockdown' is starting to ease in most countries now, but with social distancing required in restaurants, the holiday season disrupted, and staffing levels in processing plants still affected, it remains to be seen how much the 'ease' supports demand and whether there will be a knock-on effect on GB prices. We note that even whilst at home, people still need to eat and pig meat is included.

Bovine TB

Consultation

Defra has launched a consultation on managing both vaccination and culling of badgers in the Edge Area. The aim is to reduce the risk of culling already-vaccinated badgers, balanced with allowing culling to continue where applications meet the licensing requirements. The proposals would see badgers within active vaccination sites in the Edge Area protected from adjacent culling through the use of no-cull zones surrounding the vaccination sites. The proposals include minimum criteria for the no-cull zones, including the size of the zones to ensure they are proportionate to the size of the vaccination area, to minimise any reduction in disease control that the zones may cause. *In response to the Godfray Review, the Government set out its ambition to move away from widespread badger culling to wider deployment of vaccination.*

The full consultation can be found at https://consult.defra.gov.uk/animal-health-and-welfare/badger-no-cull-zones-edge-area/ Responses need to be made by 26th June.

Culling Areas

Natural England has licensed and authorised seven new supplementary badger control areas to begin operations in 2020. These include two areas in Cornwall, two in Devon and one in each of the counties of Dorset, Gloucestershire and Herefordshire. In addition, it has authorised the resumption of operations in three existing areas in Dorset (year 2), Somerset (year 4) and Gloucestershire (year 4).

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